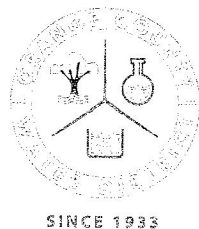


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ORANGE COUNTY WATER DISTRICT
ORANGE COUNTY'S GROUNDWATER AUTHORITY

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MICHAEL R. MARKUS, P.E., D.WRE

March 20, 2017

Mr. Kurt Berchtold
Santa Ana Regional Water Quality Control Board
3737 Main Street, Suite 500
Riverside CA 92501

Re: Status of Orange County Water District Water Purchase Agreement with Poseidon Resources Regarding the Proposed Huntington Beach Desalination Project

Dear Mr. Berchtold:

As you are aware the Orange County Water District ("OCWD or District") has approved a term sheet to purchase 56,000 acre feet per year of water from the proposed Huntington Beach Desalination Project ("HBDP"). The term sheet calls for Poseidon Resources to permit, finance, construct and operate the treatment plant. OCWD would be responsible for purchasing the water and for permitting, financing, constructing and operating the necessary system to distribute the water to the local Orange County water community.

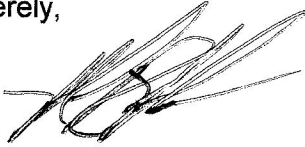
As part of the planning process, the District has been considering a variety of water conveyance and utilization options that OCWD might implement once it purchases the desalinated water from the HBDP. One of these options includes potential modifications to OCWD's existing groundwater basin recharge and seawater barrier operations. Additionally, OCWD has been working with other water agencies in the area who may be interested in participating in the integration of the desalinated water supply. This could lead to alternative distribution options that have yet to be considered. At this time, OCWD has not reached any conclusions or made any decisions regarding how desalinated could be used by the District and distributed to the local water community, so no specific conveyance and utilization option has been formally selected.

As previously discussed with John Kennedy in our office a water purchase agreement between Poseidon and OCWD will not be finalized until after the HBDP has received all of its required state permitting approvals, including those from the California State Lands Commission, Santa Ana Regional Water Quality Control Board and California Coastal Commission. OCWD continues to monitor the permitting process for these three state agencies which remain ongoing. Given the expected timeline for the HBDP's permitting process, OCWD has also concluded that it would not be prudent to begin an extensive environmental analysis related to use of the desalinated water in OCWD's operations and facilities, along with distributing the water to other agencies, prior to the approval of the permits for the HBDP. Decisions by the Regional Board and the other permitting agencies may result in new or different information that could increase the cost of the desalinated water and/or modify OCWD's plans for using and distributing the water.

The OCWD staff and Board have discussed many options related to the use of desalinated water. After the HBDP has been permitted, and when OCWD decides upon specific plans and facilities that OCWD could employ to use and distribute the desalinated water, the District would notify the Regional Water Quality Control Board and the other state permitting agencies.

The District will continue to work closely with the Regional Board on this project. If you have any further questions or would like to meet please contact John Kennedy at (714) 378-3304 or at JKennedy@OCWD.com.

Sincerely,

A handwritten signature in black ink, appearing to be 'MR Markus', with a stylized flourish at the end.

Michael R. Markus, P.E., D.WRE, BCEE, F.ASCE
General Manager

cc. OCWD Board of Directors
CA State Lands Commission – Cy Oggins
CA Coastal Commission – Tom Luster
Municipal Water District of Orange County – Rob Hunter
Poseidon Resources – Scott Maloni